

Gloucester City Council

Meeting:	GLT	Date:	5th March 2013
	Audit & Governance Committee		18th March 2013
Subject:	Internal Audit Plan 2012/13 – Quarterly Monitoring Report		
Report Of:	Group Manager Audit & Assurance		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway, Group Manager Audit & Assurance		
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Appendices:	1. List of the audits completed as part of the Internal Audit Plan 2012/13 – September 2012 to February 2013		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To inform Members of the audits completed as part of the approved Internal Audit Plan 2012/13.

2.0 Recommendations.

2.1 Audit & Governance Committee is asked to **RESOLVE** that:-

- (1) Members endorse the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited.

3.0 Background and Key Issues

3.1 At the Audit Committee meeting held on 15th March 2012, Members approved the original Internal Audit Plan 2012/13. Due to problems with staff absence, it was evident that the original Plan would not be completed, therefore, at the meeting held on 26th November 2012, the Committee approved a revised Internal Audit Plan 2012/13. In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, this report details the outcomes of internal audit work carried out in accordance with the approved Plans.

3.2 This report includes audits completed during the period September 2012 to February 2013. The performance monitoring information (for the revised Internal Audit Plan) is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the

period December 2012 to February 2013 is 55% (5 out of 9 planned audits completed) compared to a target of 90%. It should be noted that these figures do not take account of 1 audit that was at Final Report stage, and 3 audits that were more than 50 % complete as at 28th February 2013.

- 3.3 Staff absence is again the main reason for non-achievement of the 90% target. This has been mitigated to a certain extent by the use of an agency member of staff, although, the original intention was that this resource was to be in addition to, rather than a replacement for, the current level of resources.
- 3.4 Details of the audits completed, together with the overall conclusion reached on each audit, have been provided in **Appendix A**. This should provide Members with a view on the adequacy of the controls operating within each area audited.
- 3.5 It has previously been agreed that Members would be notified of all 'Rank 1 Fundamental' recommendations that have not been implemented within the agreed timescale. For the period covered by this report, one such recommendation has been identified. This relates to the Treasury Management audit and the recommendation was as follows:-

- The Audit and Governance Committee should be advised each quarter whether investments transacted during the quarter have been with approved counterparties and within agreed counterparty and investment limits.

4.0 Alternative Options Considered

- 4.1 Not applicable.

5.0 Reasons for Recommendations

- 5.1 The CIPFA Code of Practice for Internal Audit states that the Head of Internal Audit should report on the outcomes of internal audit work, in sufficient detail, to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.

6.0 Future Work and Conclusions

- 6.1 The role of internal audit is to examine, evaluate and report upon the adequacy of internal controls. Where weaknesses have been identified, recommendations have been made to improve the level of control.

7.0 Financial Implications

- 7.1 As detailed in this report.

(Financial Services have been consulted in the preparation this report).

8.0 Legal Implications

8.1 None specific to this report.

(Legal Services have been consulted in the preparation this report).

9.0 Risk & Opportunity Management Implications

9.1 Delays in response to acceptance/implementation of audit recommendations lead to weaknesses continuing to exist in systems, which has the potential for fraud and error to occur.

10.0 People Impact Assessment (PIA):

10.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

10.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

11.1 There are no community safety implications arising out of this report.

Sustainability

11.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

11.3 There are no staffing and trade union implications arising out of this report.

Background Documents:

Internal Audit Plan 2012/13
Revised Internal Audit Plan 2012/13

APPENDIX A

List of the audits completed as part of the Internal Audit Plan 2012/13 – September 2012 to February 2013

Audit	Comments	Level of Assurance
TIC	<p><u>Audit Objective</u></p> <p>The objectives of the audit were to ensure that: -</p> <ul style="list-style-type: none"> • All income is properly accounted for and has been promptly banked. • VAT has been applied appropriately. • Goods and services have been ordered, received and paid for in accordance with Contract Standing Orders and Financial Regulations. • There is adequate separation of duties in relation to the ordering and receipt of goods, and the payment of invoices. • Sundry Debtor invoices have been raised promptly and accurately. • An inventory of equipment is maintained in accordance with Financial Regulations. • Insurance has been arranged at an appropriate level. • Floats and petty cash are maintained at the authorised level • Stock levels are adequately controlled and stock takes are undertaken, and reported upon, at least twice a year. • A Gifts and Hospitality register is held and is correctly utilised. <p><u>Audit Opinion</u></p> <p>On the basis of work carried out during this audit, the audit opinion is that there is a Good level of assurance over this area.</p>	Good
Council Tax	<p><u>Audit Objective</u></p> <p>The audit was undertaken as part of the Joint Working Protocol agreed with the Council's External Auditor. The objectives of the audit were to verify the following key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of Council Tax system to Valuation Office listings. • Periodic reconciliation of the Council Tax system to the General Ledger. • Periodic reconciliation of Council Tax system to the Cash Receipting system. • Independent review of exceptions e.g. banding changes, suppressed accounts, overpayments and refunds. 	Good

Audit	Comments	Level of Assurance
	<ul style="list-style-type: none"> • Reconciliation of the gross Council Tax debit to the number of properties. • Periodic production and independent review of Council Tax arrears and credit reports. • There are adequate password-based access restrictions for each key software application in place. • Reviews are performed upon user access rights to key systems. <p><u>Audit Opinion</u></p> <p>On the basis of work carried out during this audit, the audit opinion is that there is a Good level of assurance over this area.</p>	
Non Domestic Rates	<p><u>Audit Objective</u></p> <p>The audit was undertaken as part of the Joint Working Protocol agreed with the Council's External Auditor. The objectives of the audit were to verify the following key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of the NNDR system to the Valuation Office rateable value listing. • Periodic reconciliation of the NNDR system to the cash receipting system. • Periodic reconciliation of the NNDR system to the General Ledger. • Independent review of exceptions: e.g. rateable value changes, suppressed accounts, overpayments and refunds. • Periodic production of NNDR arrears reports and independent review of action taken compared to procedures. • There are adequate password-based access restrictions for each key software application in place. • There are reviews performed upon user access rights to key systems. <p><u>Audit Opinion</u></p> <p>On the basis of work carried out during this audit, the audit opinion is that there is a Good level of assurance over this area.</p>	Good
Creditors	<p><u>Audit Objective</u></p> <p>The audit was undertaken as part of the Joint Working Protocol agreed with the Council's External Auditor. The objectives of the audit were to verify the following key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of the creditors system to the General Ledger. • Independent review of exceptions – e.g. 	Good

Audit	Comments	Level of Assurance
	<p>payments to new suppliers, potentially duplicated payments.</p> <ul style="list-style-type: none"> • Review of orders for which invoices have not been received (open orders). • Adequate password based access restrictions for the General Ledger system. • Regular evidenced independent review of user access rights to the General Ledger system. <p><u>Audit Opinion</u></p> <p>On the basis of work carried out during this audit, the audit opinion is that there is a Good level of assurance over this area.</p>	
Markets	<p><u>Audit Objective</u></p> <p>The objectives were to ensure that where applicable: -</p> <ul style="list-style-type: none"> • Current charges / fees have been appropriately authorised. • Charges / fees are being applied at the approved rates. • Street Trading Pitches are allocated in accordance with a site plan. • There is adequate separation of duties where cash collection arrangements exist. • Recommendations and Agreed Management Actions made during the previous audit have been implemented and are working as intended. <p><u>Audit Opinion</u></p> <p>The findings from the testing have resulted in the controls tested relating to the Hempsted Market & Car Boot, Farmers Market, and Events being considered to be Good whilst the controls relating to the Cherry & White Market are considered to be Satisfactory with controls relating to the Eastgate Market and Street Trading only considered to be Limited.</p> <p>The main areas of weakness identified were:-</p> <p>Eastgate Market:-</p> <ul style="list-style-type: none"> • Lack of documentary evidence that the gross service charge costs, which are used to calculate the Eastgate stallholder charges, have been updated since 2010/11. • There continues to be discrepancies within the monthly invoices to some of the Eastgate stallholders due to the monthly proportion of their annual charge being incorrectly calculated. • Unable to demonstrate that appropriate approval has been obtained for variations to the charges, or for an extension past the maximum 3 month 	Good/Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p>rental period, for short term lets at Eastgate market.</p> <p>Street Trading:-</p> <ul style="list-style-type: none"> • One of the street traders is being undercharged for 2 days trading plus electricity per week and that the undercharge may go as far back as 1st April 2012. 	
Information Governance	<p><u>Audit Objective</u></p> <p>The objective of the audit was to ensure that information governance processes and controls have general compliance with good practice guidelines. The following areas were included in the audit:-</p> <ul style="list-style-type: none"> • Freedom of Information (FOI) • Data protection • Data transparency • Data handling • Data sharing <p><u>Audit Opinion</u></p> <p>The number and classification of recommendations made has resulted in the following levels of assurance for each area reviewed:</p> <ol style="list-style-type: none"> 1. FOI: Limited The main areas of weakness identified relate to:- <ul style="list-style-type: none"> • Lack of accurate data on council's website relating to current FOI policy and processes. • Lack of audit trail relating to FOI request processing. • Level of reporting to officers and Members. 2. Data Protection: Limited The main areas of weakness identified relate to: <ul style="list-style-type: none"> • Lack of clarity of roles and responsibilities between officers. • Personal data currently disclosed in a number of reports in the public domain. • Not all DPA cases being recorded on the Focus system. 3. Data transparency: Satisfactory The main areas of weakness identified relate to:- <ul style="list-style-type: none"> • Published Open data sets not up to date and not reviewed/published on an ongoing basis. 4. Data handling: Satisfactory The main areas of weakness identified relate to:- 	Good/Satisfactory /Limited

Audit	Comments	Level of Assurance
	<ul style="list-style-type: none"> • Roles and responsibilities of the SIRO not clearly specified. <p>5. Data sharing: Good A robust framework of controls has been confirmed. No recommendations have been identified for this area.</p>	
Sundry Debtors	<p><u>Audit Objective</u></p> <p>The audit was undertaken as part of the Joint Working Protocol agreed with the Council's External Auditor. The objectives of the audit were to verify the following key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of the Sundry Debtor system to the General Ledger. • Periodic reconciliation of the Sundry Debtor system to the Cash Receipting system. • Periodic production and independent review of Sundry Debtor arrears reports. • There are adequate password-based access restrictions for each key software application in place. • Reviews are performed upon user access rights to key systems. <p><u>Audit Opinion</u></p> <p>Detail testing performed in the key areas of reconciling the sundry debtor system (ASH) to the cash receipting system, password based access restrictions to software applications, the review of user access rights to the software has provided a Good level of assurance that risks are being mitigated by the process controls.</p> <p>Testing performed upon the key control of reconciling the Sundry Debtor System to the Sundry Debtor control account on the General Ledger has revealed that the reconciliations are now being performed on a monthly basis but that control issues remain in relation to it not being demonstrable that a review has been performed by a senior officer, and there not being any procedure notes to aid another officer with completing this reconciliation. Therefore, there is only a Satisfactory level of assurance over this area.</p> <p>Testing performed on the key control relating to arrears reports has identified the following weaknesses:-</p> <ul style="list-style-type: none"> • Whilst outstanding invoice reports and dispute reports continue to be run on the first working day of each month, this information is not routinely sent to the appropriate service for their review. • It was established that the debtor recovery 	Good/Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p>timetable had not been updated or used since the end of September 2012. The timetable was reintroduced prior to completion of the audit where it was demonstrated that key elements, such as running and reviewing reminder reports, are scheduled for set dates from which assurance has been provided that recovery actions are once again scheduled to be performed on a timely basis.</p> <p>Therefore, there is only a Limited level of assurance over this area.</p>	
Treasury Management	<p><u>Audit Objective</u></p> <p>The objective of the internal audit was to ensure that the following Treasury Management controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • The Council has established a 2012/13 Treasury Management policy and investment strategy that has been approved. • The Council has an up to date procedures manual for Treasury Management processes and controls which is made available to all appropriate staff. • Clear and concise records are maintained to support all borrowing and lending decisions and transactions. • All transactions are correct and properly authorised. • Daily and longer term cash flow statements are produced. • Only approved staff have access to the CHAPS payment system. • Reconciliation of investment/ borrowing records to the general ledger. <p><u>Audit Opinion</u></p> <p>On the basis of work carried out during this audit review and the level of error identified through audit testing, the audit opinion is that there is Good level of assurance on the adequacy and operating effectiveness of controls over the daily operation of treasury management functions but Limited assurance on the adequacy of reporting to Members.</p>	Good/Limited
Licences	<p><u>Audit Objective</u></p> <p>The objective of the audit was to ensure that controls are in place and operating effectively in the following areas of the licenses process:</p> <ul style="list-style-type: none"> • Applications 	Satisfactory

Audit	Comments	Level of Assurance
	<ul style="list-style-type: none"> • Fees and Charges • Income • Authorisation • Complaints <p><u>Audit Opinion</u> The number and classification of recommendations made has resulted in the overall assurance level of Satisfactory.</p> <p>The main area of weakness identified related to the lack of a random check of licenses issued in order to ensure that they have been appropriately assessed, including receipt of the correct fee.</p>	
Parking	<p><u>Audit Objective</u></p> <p>The objectives of the audit were to ensure that: -</p> <ul style="list-style-type: none"> • Payments to the Contractor can be substantiated to supporting documentation. • Key performance data is monitored and profit share amended as necessary. • Income from contractor can be substantiated to supporting documentation. • Income from Penalty Charge Notices is adequately controlled. • Penalty Charge Notices are appropriately processed. • Cases taken to court comply with the enforcement timetable. • Pay & Display meters are regularly emptied and the takings verified. • Permits are adequately controlled. • Security is being provided as per the relevant contract. <p><u>Audit Opinion</u></p> <p>The controls tested in relation to the contract, administration of fines, issuing accounts to court, meter functionality, expenditure, administration of permits, and reviewing security were all considered to be Good with the controls tested in relation to income being considered to be Satisfactory.</p>	Good/Satisfactory

The report includes an 'opinion' on the adequacy of controls in the area that has been audited, classified in accordance with the following definitions:-

CONTROL LEVEL	DEFINITION
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority).
Satisfactory	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority).
Limited	Some lapses in framework of controls – provides limited level of assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations.
Unsatisfactory	Significant breakdown in framework of controls – provides an unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

Ranking of Recommendations:-

RANK		DEFINITION	IMPLEMENTATION
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit key control.	Immediate action required – should be pursued immediately.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.	Should be pursued in the short term, ideally within the next 6 months.
3	Low Priority	Current procedure is not best practice and could lead to minor in-efficiencies.	Action should be taken over the next 6 to 12 months.